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# REPORT

OF THE

*Canada Commission and  
Committee of Inquiry*

# COMMISSIONERS

APPOINTED TO INVESTIGATE THE BUSINESSES OF

WILLIAM DAVIES Co., Ltd.

AND

MATTHEWS-BLACKWELL, Ltd.

NOVEMBER 1, 1917



OTTAWA

J. DE LABROQUERIE TACHÉ  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1917

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31039—1



OTTAWA, November 1, 1917.

Hon. T. W. CROTHERS, K.C.,  
Minister of Labour,  
Ottawa, Ont.

SIR,—By Order in Council, dated July 23, 1917, the undersigned were appointed to investigate further the businesses of the William Davies Company, Limited, and Matthews-Blackwell, Limited, and for that purpose to examine the books, records and papers of such companies, and take evidence under oath or affirmation relative to such matters as would be included in a complete return by each of such companies concerning butter, eggs, cheese, beef, pork, bacon, ham, mutton and lamb, and to report in writing to you as to the result of such investigations and examinations, showing by unit values or prices (that is by pounds or dozens as the case may be) as respects the dealings of each of said companies in each of said commodities, (a) the amount of margin between the first cost to each of said dealers and the price ultimately realized on sale or disposal by each of said dealers, (b) the net profit, (c) the specific elements or factors which have conducted towards or which have operated to produce the difference found between such margin and such net profit, indicating the extent of the operation of such element or fact; also to recommend in writing to you a standardized system of cost accounting applicable to the business of cold storage, from the operation of which system the net profits of cold storage companies within Canada may from time to time be readily ascertained.

Upon receipt of notice of appointment a meeting of the commission was held in Ottawa on July 25, 1917, when the procedure to be followed in making the investigations required was determined; thereafter accountants, being members of the staffs of Price, Waterhouse & Co., and Clarkson, Gordon & Dilworth, were immediately set to work upon the books of the companies.

The first public meeting of the commission was held in Toronto on July 30, 1917, and thereafter further sittings were held in Toronto on September 17, 18, and 19, and October 11, 12, 13, 18, 19, and 20.

At these sittings Mr. James W. Bain, K.C., of Toronto, appeared as counsel for the commission, assisted by Mr. M. L. Gordon. Mr. Gordon Waldron, Toronto, retained by *Saturday Night*, acted as associate counsel with Mr. Bain. The William Davies Company, Limited, and Matthews-Blackwell, Limited, were represented by Mr. W. N. Tilley, K.C., Toronto, and Mr. Walter L. Breckell, C.S.R., Toronto, was appointed secretary to the commission, and acted as such.

At the hearings mentioned the following persons were examined under oath, namely:—

Edward Carey Fox, of Toronto, General Manager of the William Davies Company, Limited.

John Waugh Cringan, of Toronto, Auditor of the William Davies Company, Limited.

Robert Bain Mills, of Toronto, Manager of the Export Department of the William Davies Company, Limited.

James Telfer, of Montreal, Manager of the Cellar Department of the William Davies Company, Limited, at Montreal.

Robert N. Watt, of Montreal, Manager of the Montreal factory of the William Davies Company, Limited.

Sir Joseph Flavelle, of Toronto, President of the William Davies Company, Limited.

John T. Wardle, of Montreal, formerly in the Export Department of the Montreal factory of the William Davies Company, Limited.

Reuben Y. Yocom, Superintendent of the Cudahy Packing Company, Chicago.  
John J. Boeye, of Montreal, Accountant of the Matthews-Blackwell Company, Limited.

Thomas Francis Matthews, of Peterborough, Secretary-Treasurer of the Matthews-Blackwell Company, Limited.

George Westphal, of Buffalo, Retail Provision Merchant.

C. E. Stone, of Toronto, Manager of Michie & Company, Retail Provision Merchants, Toronto.

Frank E. Maulson, of Toronto, Insurance Agent.

William Dunbar Taylor, of Toronto, one of the Accountants employed by the Commission,

and statements prepared by the accountants for the Commission were, with proof, also put in as evidence.

As a result of our investigation, we have the honour to submit the following report:—

#### WILLIAM DAVIES COMPANY, LIMITED.

The William Davies Company, Limited, the present company, was incorporated under Letters Patent of the Dominion of Canada on or about June 26, 1911, with an authorized capital of \$2,000,000 divided into 20,000 shares of \$100 each. The officers of the company for the current fiscal year (ending March, 1918) are as follows: President, Sir Joseph Flavelle; Vice-President, Edward Adie; General Manager, E. C. Fox; Secretary-Treasurer, A. F. Park. A list of shareholders of the company as on May 12, 1917, shows that Sir Joseph Flavelle holds 10,067 shares out of the total of 20,000 shares.

The William Davies Company, Limited (present company), acquired the assets of the William Davies Company, Limited, its predecessor, which in turn had in 1892 taken over the business of William Davies & Company, a partnership. The first company commenced business in 1892 with a paid-up capital of \$250,000, of which \$100,000 was issued against goodwill, the actual cash invested being \$150,000. The shareholders' investment in the business, after the payment of dividends, was increased by profits earned from time to time thereafter, until in 1911 it amounted to \$1,508,299.14, comprised of issued capital stock of \$1,000,000, and reserve and profit and loss balances aggregating \$508,299.14. With the incorporation of the present company in 1911, the assets of the first corporation were appraised and thereafter transferred to the new company for \$1,500,000 of paid-up capital stock. The appraisal showed the value of the net assets, exclusive of any value for goodwill, to have been \$100,000 in excess of the amount of \$1,500,000, and the new company, therefore, started operations with a surplus of \$100,000 which was credited to "rest" account.

During the period of the present company's operations, the evidence shows that in addition to charging against the profits of each year an amount sufficient to provide for ordinary depreciation and replacement of buildings, machinery and equipment, it was the policy of the management at the close of each fiscal year to review the values at which the property assets were carried on the books and to make such deductions therefrom as appeared in their judgment necessary. After such deductions the capital and surplus earnings invested in the business at the close of each fiscal year were as follows:—

In 1912, paid up capital, \$1,500,000—	Rest and profit and loss balance.....	\$ 308,771
1913      "      1,500,000—	"      "      "	363,097
1914      "      1,500,000—	"      "      "	472,702
1915      "      1,500,000—	"      "      "	828,453
1916      "      2,000,000—	"      "      "	1,567,926
1917      "      2,000,000—	"      "      "	2,697,830

The paid-up and issued capital of the company having been increased from \$1,500,000 to \$2,000,000 in March, 1916, by the payment of a stock dividend.

In connection with the above figures, it should be noted that no provision has been made in respect of taxes payable under the Business Profits War Tax Act for the three years ending March 31, 1917. The full amount of the taxes payable has not yet been determined by the Finance Department, but the manager of the company estimates that approximately \$1,000,000 will require to be paid and deducted from the surplus profits of the company at March 31, 1917.

#### PROFIT AND LOSS ACCOUNT.

The profit and loss account of the company for the five years ending March, 31, 1917, may be summarized as follows:—

	1913.	1914.	1915.	1916.	1917.
Profits from operations exclusive of retail store profits, but after deduction of bonuses to employees . . . . .	\$ 5,010	\$15,521	\$484,631	\$1,335,454	\$1,634,161
Retail store profits . . . . .	98,552	75,350	100,969	60,326	48,610
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Dividends received . . . . .	\$103,562	\$ 90,871	\$585,600	\$1,395,780	\$1,682,771
	66,176	76,790	62,717	143,693	19,723
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total . . . . .	\$169,738	\$167,661	\$648,817	\$1,539,473	\$1,702,494
Deduct—Special appropriations . . . . .	2,912	13,056	67,566	.....	322,590
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Balance of profits . . . . .	\$166,826	\$154,605	\$580,751	\$1,539,473	\$1,379,904
Dividends paid—					
Cash dividend . . . . .	112,500	45,000	225,000	300,000	250,000
Stock dividends . . . . .	.....	.....	.....	500,000	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Surplus . . . . .	\$54,326	\$109,605	\$355,751	\$739,473	\$1,129,904

The income from dividends shown above represents dividends on the company's investments in Sheed-Thomson & Company, which acts as its London agent, and 60 per cent of whose capital stock it owns, and in the Harris Abattoir Company, an independently operated company, 40 per cent of whose capital stock it owns. For purpose of the present investigation the income from such sources is not of great importance inasmuch as the dividends from the Abattoir Company do not affect the trading profits of the Davies Company, and in so far as the Davies Company possesses a stock control of Sheed-Thomson & Company, the amount of profits earned by that company, rather than the amounts received as dividends therefrom, is significant. The appropriations out of profits represent charges, which are wise and conservative from the standpoint of the company as between itself and its shareholders, but have no bearing upon the questions of costs and selling prices. Both the dividends and appropriations, however, will be briefly discussed later in this report.

#### TRADING PROFITS.

The profits shown are arrived at after deduction of the annual bonuses paid to employees. Since these bonuses may well be looked upon as an increase in salaries and wages paid, in view of the long-continued practice of the company, and discontinuance of their payment might produce serious practical difficulties, we think it proper to consider them a part of the costs of operation. On this basis, therefore, the statement indicates that the percentages of profits obtained on sales of the four years ending March 31, 1917, were:—

(a) For the fiscal year ending March, 1914, sales amounted to \$10,774,274.

Upon which profits of \$15,521, equal to 14 per cent, were earned.

(b) For the fiscal year ending March, 1915, sales amounted to \$16,882,111.

Upon which profits of \$484,631, or 2.87 per cent, were earned.

(c) For the fiscal year ending March, 1916, sales amounted to \$25,135,468.

Upon which profits of \$1,335,454, or 5.32 per cent, were earned.

(d) For the fiscal year ending March, 1917, sales amounted to \$41,080,632.

Upon which profits of \$1,634,161, or 3.99 per cent, were earned.

From the above figures it is at once apparent that the large increase in profits for the years 1916 and 1917 resulted in part from increased sales and in part from higher percentages of profits to sales in these years.

Upon analysis it appears that the increase in sales is principally in the export business and that the segregation of profits as between domestic and export business is a matter of primary importance. The company's trading profits have been derived from the following four main sources:—

(a) Meat products exported to England.

(b) Meat products sold to Canadian public.

(c) Canned and special products manufactured, and cooked meats.

(d) Produce purchased in the United States and sold outside of Canada.

The profits obtained in each fiscal year from each of these sources were as follows:—

—	Meat Products sold to Canadian Public.	Specialties and Cooked Meats.	Produce purchased in United States and sold outside of Canada.	English Exports.
	\$	\$	\$	\$
In 1914.....	70,857	48,867	1,570	103,768 (loss)
In 1915.....	119,463	179,836	2,718 (loss)	220,825
In 1916.....	107,034	122,837	14,773	1,180,503
In 1917.....	178,114	142,840	46,528	1,416,041
Total.....	475,468	494,380	60,153	2,713,601
Percentage of Total Profits.....	12.7%	13.2%	1.6%	72.5%

#### EXPORT TRADE.

In view of the outstanding fact that 72.5 per cent of the total profits of the company from abattoir and packing houses during the period with which we are concerned was derived from English export trade, and inasmuch as the Order in Council instructs us to report especially upon the specific elements or factors which have conducted towards or which have operated to produce the difference found between margin and net profit, it appeared to us necessary to investigate thoroughly the nature of the company's export business and the conditions under which it was carried on. In order that these may be properly understood, an historical resumé of the situation seems appropriate.

Prior to the year 1912, the British agent of the company was Mr. J. Wheeler Bennett. In that year, he ceased to be the agent of the company and, after consideration of the best method of conducting its British business, the company decided to engage the services of Mr. Sheed, who had previously been for some years in the employment of Mr. Bennett, and who had entered upon a similar business on his own account in connection with a Mr. Thomson. A company was formed under the name of "Sheed-Thomson & Company, Limited." Of this company, the Davies Company owns 60 per cent of the stock, and the president of the Davies Company, Sir Joseph Flavelle, is also its president. Messrs. Sheed and Thomson own or control the balance of the stock and the practical management of the affairs of the company is left to them. It is obvious, however, that should occasion arise for the exercise of a control, the Davies Company would dominate the policy of Sheed-Thomson & Company.

Since 1912, Sheed-Thomson & Company has acted as British agent for the Davies Company, and in addition it has represented other foreign packing houses. The Davies Company pays Sheed-Thomson & Company a commission of 2 per cent upon all goods sold in England as compared with a commission of  $2\frac{1}{2}$  per cent previously paid to Mr. Bennett.

The following is a statement of the profits of Sheed-Thompson & Company up to December 31, 1912, before deduction of war taxes:—

	£	s.	d.
October 11 to December 31, 1912.. . . . .	1,334	0	0
Half-year to June 30, 1913.. . . . .	4,454	2	4
" December 31, 1913.. . . . .	3,441	3	2
" June 30, 1914.. . . . .	3,992	13	0
" December 31, 1914.. . . . .	9,182	16	11
" June 30, 1915.. . . . .	19,412	0	10
" December 31, 1915.. . . . .	28,164	4	5
" June 30, 1916.. . . . .	39,837	4	8
" December 31, 1916.. . . . .	44,933	19	10
A total of.. . . . .	<u>154,752</u>	<u>5</u>	<u>2</u>

Up to December 31, 1916, the company had paid or reserved out of these profits for payment of war taxes to the English Government £69,761 6s. Od.

It will be noted that during the fiscal year ending March, 1914, the Davies Company lost an amount of \$103,768 on its export business. This was apparently due to general market conditions which were unsettled at that time. The general practice of the packers in their export business was then, and for some time afterwards, to send goods to Great Britain on consignment to their British agents, to be disposed of by them at the market values prevailing on the date of arrival.

The business of the Davies Company in Great Britain had been in process of building up for a considerable period of years and in order to maintain their business connections it was necessary for them to continue shipments notwithstanding adverse fluctuations of markets. Their products had acquired a high reputation upon the British market and in this connection it is interesting to note that their products commanded a somewhat higher price than those of other Canadian packers, whereas Canadian products as a whole commanded a substantially higher price than those from the United States, being second only to the products from Denmark and Ireland. Prior to the outbreak of the war, and for a comparatively short period thereafter, market conditions remained somewhat unsettled. Soon after the outbreak of the war, however, it became apparent that with the withdrawal of very large numbers of men from productive industry and the closing of European sources of supply, there must be a largely increased overseas demand for food, especially hog products, thus indicating, if not indeed compelling, a heavy expansion in the export demands upon Canada.

During the fiscal year 1914, the export business of the Davies Company in hog products probably did not exceed \$3,000,000. In 1915, it increased to over \$6,000,000. In 1916, it further increased to over \$13,000,000, and in 1917, to over \$22,000,000. During this period also the exports of other animal products by this company increased from \$39,726.82 in 1914 to upwards of \$1,174,181.22 in 1917.

Shortly after the commencement of the war, Messrs. Denny & Company became the buyers for the British War Office, and were thereafter the chief purchasers of the Davies Company's products in Great Britain. At first they bought on the market at regular market prices. Some time in the month of July, 1916, an arrangement was made between Denny & Company and Sheed-Thomson & Company whereby a fixed price was paid for the products of the Davies Company on delivery in England. This arrangement remained in force for about a month only and then a new arrangement was reached whereby at monthly periods the Davies Company cabled an estimated cost price which was agreed upon by Messrs. Denny & Company

as a minimum price, the price to be paid for the products being the market price at time of delivery, but not in any event to be less than the minimum so agreed upon. This arrangement remained in effect until February, 1917. During the whole of this period, the product was delivered by the Davies Company at certain points in England designated by Messrs. Denny & Company.

In the month of February, 1917, an important change of policy was made by Messrs. Denny & Company. Transportation difficulties, due to the submarine menace and the well known shortage of shipping bottoms, had become so pronounced that in order to obtain a satisfactory supply the War Office authorities deemed it advisable to take delivery at the Atlantic seaboard and to provide their own transportation across the Atlantic, obliging the Davies Company and other packers to pick up the goods again at the British port of entry and to distribute them to the points designated by the War Office in Great Britain for curing.

There are certain expressions used in the cable correspondence which intimate that during the latter part of the year 1916 Messrs. Denny & Company had become concerned because of the high market price for hog products in Canada and the United States, and that their policy was to give as much as possible of their business to the Davies Company. One cable expresses the opinion that in this way competition for hogs in Canada could be reduced and the market level kept down. Whether or not this theory was well founded appears to us to make little difference. They did, in fact, give as much business to the Davies Company as that company could handle with its existing facilities and also with such enlargement of its facilities as time and circumstances would permit, but the aggressive action of the competitors of the Davies Company, notably the Matthews-Blackwell Company, and the insistent demands of the Davies Company itself, were such that competition by the Canadian buyers in Canada was never lessened, but continued, and as a result the market for live hogs continued to rise.

During the period subsequent to August, 1916, the Davies Company and the Matthews-Blackwell Company went for the first time into the Chicago market, and while the amount of their purchases in that market was relatively a small proportion of the whole market, it may have had some effect in increasing prices in the United States. This point is, however, beyond the necessary scope of our inquiry, and the evidence submitted was not sufficiently complete to enable us to express any definite opinion on the subject. It is contended on behalf of both the Davies Company and the Matthews-Blackwell Company that by purchasing raw products in the United States and preparing them in Canada for export to Great Britain, they spent large sums of money in Canada and added to the amount of their war profits tax, as well as assisting incidental industries in Canada. This view seems to us well founded, although it is obvious that the American business was undertaken for the sole purpose of making profits.

During the period from August, 1916, to February, 1917, there appears to have been a steady increase in the quantity demanded by the British market, subject only to certain temporary fluctuations at extraordinary periods, such as on one occasion when an accumulated supply reached Great Britain from Holland, and upon another occasion when a similar condition arose from Denmark. The fact must be borne in mind, however, that the Canadian companies received in the British market one price for Canadian product and a different price for their American product, and we feel that even if they had not entered the United States market the demand for United States product which they filled would no doubt have been filled by American packers. The net result of their entering the United States for the purchase of raw product was to increase largely their own supply and correspondingly increase their earning capacity, they having in the meantime provided packing facilities to take care of the raw product purchased by them in the United States.

It is noteworthy that during the period from August, 1916, to February, 1917, the Davies Company enjoyed the very distinct advantage over its competitors of

having a fixed minimum price, which unquestionably gave it greater assurance in making its purchases of live hogs. From a perusal of the cable correspondence leading up to the granting of the concession it would appear that in June, 1916, the company became apprehensive as to the effect upon the market of the arrival in Great Britain of accumulated supplies of foreign bacon, and in order to protect itself against loss in the event of a declining market, it stipulated for and obtained the concession, continuing to enjoy it after the foreign situation had become adjusted. So far as we can learn no other company in Canada or the United States enjoyed this advantage. Having a guarantee that it would receive cost for its products, the Davies Company could not lose in a declining market, but in an advancing market every chance was in its favour to make profits which were limited only by the prices prevailing in Great Britain at the time of sale. The Davies Company and the Mathews-Blackwell Company were the principal dealers in Canadian hog products in the English market. We have no direct evidence that they were in a position to influence the determination of selling prices in England, but in view of the urgent demand for hog products, which then existed, it seems to follow that their influence in that regard must have been of importance. The Davies Company's chief competitor the Mathews-Blackwell Company, was not aware of the concession granted to the Davies Company, but had such confidence in the prospects for higher prices in Great Britain that it met the competition of the Davies Company for live hogs without hesitation. It was suggested during the inquiry that this concession might have been obtained by Sir Joseph Flavelle, whose occupancy of a public position would facilitate his so doing. The evidence of Sir Joseph is that he took no part in the negotiations which resulted in the granting of this concession, and the cable correspondence indicates that it resulted from a business negotiation influenced only by business considerations.

It was also urged during the course of the investigation that there were certain other minor advantages which the Davies Company enjoyed, and which were not enjoyed by their competitors in business. In this connection it is true that as a result of shrewd business negotiations there were short periods of time when the Davies Company did obtain certain minor concessions through Messrs. Denny & Company, but it does not appear to us that any of those gave them any real advantage over their competitors.

#### CURING PROCESS OF BACON.

Another feature in connection with the export trade which it was found necessary to deal with exhaustively arose out of statements made by a former employee of the Davies Company. These were in effect that the Davies Company adopted a fraudulent system of keeping bacon intended for shipment to the War Office for a period approximately two weeks in what was called "post cure," after the bacon had already gone through the regular curing or pickling process. The suggestion was that this was done with the intention of increasing the weight of the product and in substance of selling a certain proportion of salt and water to the War Office at the price of Wiltshire sides. After a thorough investigation into this subject no evidence has been adduced which warrants such a suggestion.

The situation in concise form is this: The Davies Company had as far back as 1902 adopted a new and secret process whereby their product could be sufficiently cured for shipment in the short space of two weeks, the completion of the cure taking place while the product was in transit. In view of the fact that the process customarily adopted in Chicago and other packing-house centres would seem to require a period of one month, the Davies process obviously gave the company a great advantage over its competitors. The new process, however, had a disadvantage in that it was of such a nature that it required prompt delivery to the smoke house after arrival in Great Britain. Failing prompt delivery, deterioration would set in, with consequent loss to the company.

When transportation difficulties became acute and when the greater demand necessitated a greater spread of time for delivery, the Davies Company met the difficulty by providing additional vat accommodation at both Toronto and Montreal, and, as far as possible, treated all export bacon to the "post cure" process. The main object of this further pickling process was to prevent deterioration, but there was, of course, the further advantage in that it enabled the company to hold the product for a longer period of time, and not only to make deliveries as called for, but to take advantage of what proved to be a continuously advancing market. Incidentally there was a substantial gain in weight, since it is a fact, at least up to a certain point, that the longer the product remains in a state of saturation, the more weight it takes on. It is only fair to point out, however, that the Davies Company's usual cure is of much shorter duration than that of other packers, and in point of fact, the evidence shows that the gain in weight of the Davies product after being treated to the "post cure" process is not greater (if as much) as the gain in weight obtained by other packers in the ordinary course of business.

#### PROFITS OF RETAIL STORES.

Dealing with the accounts of the retail stores conducted by the company analyses of the operations for the fiscal years ending in March, 1915, 1916, and 1917, and for the period between April, 1917, and August, 1917, were made. These statements indicate that:—

(a) For the fiscal year ending March, 1915—

the stores earned a gross profit of.....	21·4 %
on sales in Toronto of.....	\$1,697,274
which, after deduction of the cost of operating them of.....	17·51%
left a net profit of.....	3·89%

Within the same period—

the Ontario stores on sales of.....	\$394,397
showed a gross profit of.....	21·46%
which, with costs of operation of.....	17·08%
left a net profit of.....	4·38%

(b) For the fiscal year ending March, 1916—

on sales in Toronto of.....	\$1,496,148
the stores earned a gross profit of.....	22·01%
which, after deduction of the cost of operating them of.....	19·3 %
left a net profit of.....	2·7 %

Within the same period—

the Ontario stores on sales of.....	\$396,292
showed a gross profit of.....	21·8 %
which, with costs of operation of.....	17·04%
left a net profit of.....	4·76%

(c) For the fiscal year ending March, 1917—

on sales in Toronto of.....	\$1,499,408
the stores earned a gross profit of.....	22·87%
which, after deduction of the cost of operating them of.....	20·25%
left a net profit of.....	2·62%

Within the same period—

the Ontario stores on sales of.....	\$390,787
showed a gross profit of.....	22·99%
which, with costs of operation of.....	19·88%
left a net profit of.....	3·11%

For the four weekly periods since April 24, 1917, the operations of the Toronto stores have shown gross profits running from a minimum of 20·03 per cent to a maximum of 22·70 per cent, with expenses in the same time aggregating between 19·24 per cent and 27·6 per cent; while the Ontario stores have shown gross profits of between 20·18 per cent and 23·11 per cent, with expenses of operations of 21·03 per cent to 25·08 per cent. Generally speaking, these percentages indicate that to every

77 cents or 78 cents paid by retail stores to the packing-houses for products for sale to the public between 19 cents to 21 cents, or over 25 per cent of cost, is required to be added to cover the cost of distribution; also that out of every dollar paid by the public for meat products between 19 per cent and 21 per cent was contributed to cover the cost of distribution and operation.

In connection with the profits of the retail stores it should perhaps be explained that under its accounting system the company charges each store with a percentage on the value of the property as representing rent, and also with a proportion of general head office administration expense, which, however, does not appear to be excessive. The cost of operation of the stores include these charges and also a fair provision for depreciation of store fixtures.

#### INCOME FROM DIVIDENDS.

##### *Sheed-Thomson & Company.*

The relationship between the Davies Company and the Sheed-Thomson Company has already been explained, and the statements of the earnings of the latter from the date of its incorporation to December 31, 1916, has been given. The total earnings amounted to £154,752-5-2, from which provision for war taxes has been made of £69,761-6, leaving earnings available for dividends amounting to £84,990-19-2.

Out of these earnings the following dividends have been paid, the Davies Company receiving their 60 per cent proportion:—

Year ending December 31—	Total Dividends.
1913.....	. cash. £ 4,000
1914.....	. " 4,500
1915.....	. stock. 5,000
1916.....	. cash. 5,750
	. stock. 5,000
	. cash. 10,000
	. stock. 20,000
Total.....	<u>£54,750</u>

Deducting the total dividends paid from earnings available for dividends amounting as above to £84,990 19s. 2d., there remains a balance of £30,240 19s. 2d. at the credit of the company's surplus account, 60 per cent of which would be received by the Davies Company if a distribution were made.

##### *Harris Abattoir Company.*

This is a company carrying on a business somewhat similar to that of the Davies Company, with head office in Toronto. It has a capital of \$880,000, of which 40 per cent is owned by the Davies Company, and one-half of the directorate of the company is nominated by the Davies Company.

Sir Joseph Flavelle and certain of those associated with him in the management of the Davies Company became interested in the Harris Abattoir Company in 1901. They do not take any part in the actual management of the company, and it would appear from the evidence that the Harris Abattoir Company was an active competitor of the Davies Company in most of its lines of business. The dividends paid by the Harris Abattoir Company which are included in the accounts of the Davies Company have been as follows:—

In 1913.....	\$63,423
1914.....	51,212
1915.....	35,240
1916.....	70,440

The dividend declared by the Harris Abattoir Company for the fiscal year ending March, 1917, was 12½ per cent, and the Davies Company's proportion of the same \$44,000. Contrary to usual custom this dividend was not included in the profits of that year, the explanation given being that it was not declared until after the books of the Davies Company had been closed.

On March 31, 1917, before payments of the dividend for the year ending on that date had been made, the Harris Abattoir Company had a balance of \$799,955.43 at the credit of general reserve account and a balance of \$420,300.16 at the credit of undivided profits account, this latter amount being arrived at after providing an estimate of the amount of taxes payable under the Business Profits War Tax Act. At March 31, 1917, the Harris Abattoir Company had, therefore, a total balance at the credit of general reserve and profit and loss accounts amounting to \$1,220,255.59, in which the Davies Company was interested to the extent of 40 per cent, and which was not reflected in any way on the books of the Davies Company at that date except to the extent of \$120,050, being premiums upon 2,401 shares of the stock held.

#### *Appropriations out of Profits.*

When evidence as to profits was being presented question was raised as to the propriety of the writing off of certain amounts in the value of fixed assets or improvements made to the same. In particular it was urged that a writing off of \$50,000 in 1915 in respect of the value of the Harriston factory, and the following items written off in 1917, namely:—

Depreciation of Harriston factory.. . . . .	\$ 20,000 00
New factory, Toronto, proportion of estimated excess cost.. . . . .	150,000 00
Old building, Toronto.. . . . .	25,000 00
Office extension and special replacements, Toronto.. . . . .	28,790 97
Ventilation equipment.. . . . .	15,788 37
Casing patents.. . . . .	33,011 83
 Total.. . . . .	 <hr/>
	\$272,591 17

were not justifiable, but that the profits shown by the company as having been earned in such years should have been increased by these amounts. Question was also raised as to an item of \$50,000 set apart in 1917 for the establishment of a pension fund, and as to another item of \$69,256.54 profit on sale of a College street property disposed of in 1916, which was carried to credit of depreciation reserve account and not included in the profits of that year as shown.

Dealing with the most important of these items, \$150,000, written off with respect to the new factory in Toronto, it would appear that commencing in 1916 and in order to meet the demands of increased business the company undertook the erection of certain new buildings which ultimately cost about \$930,000. The buildings were not employed for business purposes until at the earliest, March, 1917, and, therefore, no part of the profits earned in the fiscal year which then terminated was obtained through their use. Having been put up at the greatly increased costs which have prevailed under war conditions, the directors of the company are apparently convinced that with the return of normal times it will be found that they have cost approximately \$350,000 more than their post-war value; accordingly they reduced the profits for the year by \$150,000 as part of the \$350,000, treating the amount as an actual loss of so much money.

Whether or not the company will sustain a loss to the extent anticipated can only be shown by actual experience in the future. Only the future can determine whether or not it will be able to retain a volume of trade sufficient to provide profits to justify the erection of the new buildings, or will meet a decreased business, the profits from which would be entirely out of proportion to the expected loss upon the buildings. The fact is that under normal conditions such a loss would not occur and

the trading profits would not be subject to it, but if depreciations in value took place they would be of a normal character which custom requires to be written off over a period of years. Under present circumstances conditions are entirely abnormal, and as a consequence it cannot be presently ascertained to what extent benefit, or to what extent loss, will accrue. Should the new buildings prove to have cost more than their normal value, then the company will sustain a loss and will profit so much the less on its business dealings as a whole. So far as the determination of unit costs and selling price is concerned, the question as to whether the company should provide for the difference between cost and real value, whatever it may be, and treat the item as a loss of capital, or charge it against profits or some other account, is irrelevant for the purposes of this investigation.

The item of \$25,000 for the old building, which was torn down to make way for the new building, is somewhat different. This disappeared as a physical asset, with no element of uncertainty remaining, but on the other hand it undoubtedly formed part of the cost of the new building, allowance for the prospective loss upon which has already been dealt with.

The two items with regard to the Harriston factory are again in a still different position. This property has so far depreciated in value that it can no longer be regarded as worth the value at which it is standing in the books, and it was sound business policy on the part of the company to provide for the loss, thus occasioned, out of its available profits.

The profit of \$69,000 on the College street transaction is a converse proposition. This property was purchased out of capital. When sold at a profit the sale did not affect the trading profits for the year, and the directors were, therefore, justified in putting it to the credit of depreciation reserve account, as they did. If the company had been a real estate company, it would have been a normal trading profit. It was in fact an extraordinary profit on a real estate transaction not within the ordinary trading operations of the company. In other words, it was not a trading profit. The method employed in dealing with it was not consistent, however, as compared with the treatment of the prospective loss on the new factory.

The amount of \$28,790.97 expended on office extensions and equipment is sought to be charged in reduction of profits, upon the theory that this expenditure has not added to the value of the property. So also the item of \$15,778.37 expended on ventilation. In the ordinary course, such expenditures would be treated as capital additions, if they resulted in an increase in the value of the property, but if they represented solely replacements the cost thereof would properly be charged against the depreciation reserve which had been accumulated annually for just such purpose.

Practically the same principle applies to the item for the casing patents. These still belong to the company, but it is believed that they have lost their value. Here again it is sound policy to provide for the prospective loss, but it is still prospective and not yet actual. The amount cannot be deducted in ascertaining the amount of trading profits but is rather a disposition of a portion of the profits after they have been made.

The amount of \$50,000 set aside for the creation of a pension fund cannot be included as an operating charge or one affecting the costs of production; this for the reason that there was no obligation, expressed or implied, requiring its payment, but on the contrary it was a contribution, pure and simple, granted out of profits after they had been earned.

The result as to all these items is, therefore, that they are not to be taken into account in arriving at the unit costs of the products of the company. Nevertheless we find in them evidence of good business judgment on the part of the company in taking advantage of the opportunity offered, by a period of prosperous trading, to reduce the value of its assets to what was considered fair value and thus face losses which it was apparently believed the present had shown or the future would provide.

### MATTHEWS-BLACKWELL, LIMITED.

This company was incorporated in November, 1911, under the laws of the Dominion of Canada, with a subscribed capital of three and a half million dollars, of which two million dollars represents preferred stock, and one and a half million common stock. It was formed under the name of Matthews-Laing, Limited (which was changed in January, 1914, to Matthews-Blackwell, Limited) to purchase the business of George Matthews, Limited, the Laing Packing & Provision Company, Limited, and the Park Blackwell Company, Limited. The Company has an authorized bond issue of \$2,000,000, of which \$1,200,000 was issued at the date of the formation of the company. By the operation of the sinking fund the outstanding bonds had been reduced by October 28, 1916, to an amount of \$1,142,500.

The fiscal year of the company ends October 31, and its officers for the current year (ending October, 1917) are as follows:—

W. E. Matthews, President.  
C. S. Blackwell, Vice-President.  
T. F. Matthews, Secretary and Treasurer.

The head office of the company is in Toronto.

The company's business differs from that the Davies Company inasmuch as the latter only operates two packing-house plants, one in Toronto and the other in Montreal, whilst the Matthews-Blackwell, Limited, operates factories at Hull, Montreal, Toronto, Peterborough and Brantford. These factories are more or less independent units, each keeping a separate set of books, and transferring the profits or losses at the end of each fiscal year to the head office books. The accounting system and methods followed by the company are not so highly organized as in the case of the Davies Company, which is probably due to the fact that the cost of segregating the operations of each plant into departments would necessarily be greater where there are a number of plants having a comparatively small individual turnover than in the case of a company whose operations are more concentrated.

The following statement gives the capital and surplus earnings of the company invested in the business at the close of the four fiscal years ending October 31, 1916, as shown by the books:—

	Capital.	Surplus.	Together.
Year, 1913.. . . . .	\$3,500,000	\$113,109	\$3,613,109
" 1914.. . . . .	3,500,000	97,197	3,597,197
" 1915.. . . . .	3,500,000	299,304	3,799,304
" 1916.. . . . .	3,500,000	611,143	4,111,143

In considering the above figures relative to the company's investment in the business, it may be well to explain that when the company was formed in the year 1911, an appraisal of all properties was made, and that the securities issued for the purchase of the businesses acquired exceeded the value of the tangible assets by an amount of \$1,351,500 which represents the value of the company's trade marks, goodwill, etc.

The company has paid dividends on its 7 per cent preferred stock in each year except in 1914 when only 3½ per cent was paid. In 1916 the company cleared off the accumulated arrears by the payment of dividends aggregating 10½ per cent. No dividend has ever been paid on the common stock.

#### PROFIT AND LOSS ACCOUNTS.

The statements of profit and loss which were prepared by the accountants to the commission include the profits of all operating factories and wholesale warehouses, and also the profits of Matthews, Limited, which is a subsidiary company in Montreal dealing in produce, the capital stock of which is entirely owned by the Matthews-Blackwell Company.

The policy followed by the company in regard to depreciation of plant and equipment and reduction in the value of property accounts has differed from that of the Davies Company, the provision made by the Matthews-Blackwell Company having been based upon rates of  $2\frac{1}{2}$  per cent on buildings and 5 per cent on machinery, in place of rates of 5 per cent and  $7\frac{1}{2}$  per cent respectively adopted by the Davies Company. Moreover, in years when the profits were below normal (as in the year 1914) full provision for depreciation was not made.

In order that the operations of the company may as far as possible be compared with those of the Davies Company, the accountants to the commission have prepared a statement showing the profits of each year after making provision for depreciation at rates of 5 per cent on buildings and  $7\frac{1}{2}$  per cent on machinery. On this basis the sales and profits of the company for the four years ending October 28, 1916, have been as follows:—

	1913.	1914.	1915.	1916.
Total sales of packinghouse plants... . .	\$10,439,323	\$9,604,351	\$13,033,332	\$15,959,176
Net profits exclusive of retail stores... . .	\$116,148	\$64,182	\$248,350	\$506,026
Retail store profits... . . . .	20,809	3,063	30,747	29,958
Total profit or loss... . . . .	<u>\$136,957</u>	<u>\$61,119</u>	<u>\$279,097</u>	<u>\$535,984</u>

Percentage of profits (exclusive of stores)  
to above sales were... . . . . per cent.      1·11      0·67      1·91      3·16

So far as could be ascertained the profits for the nine and one-half months up to August, 1917, were about \$850,000, on sales of packing-houses combined, amounting to approximately \$18,500,000. These profits were largely obtained from export sales.

As in the case of the Davies Company the increase in profits for the years 1915 and 1916 result largely from export trade of hog products in the form of Wiltshire sides. Out of the total sales shown above, the export sales of hog products for the year 1913 amounted to \$558,720; for the year 1914 to \$782,441; for 1915 to \$5,152,284; and for 1916 to \$7,415,476.

No deductions have been made from the above profits in respect of such war tax profits taxes as the company may be required to pay.

The accounting system of the company does not segregate the cost of doing business as between export trade and domestic trade, and as between the various products handled, but test costs are prepared from time to time by the Peterborough office, and the information distributed to the other factories. It is admitted by the secretary-treasurer in evidence that these test costs cannot be used as a basis for the purpose of allocating the profits of the different factories as between the various products, since the operating conditions of the factories differ, and also for the reason that the volume of business has so largely increased that the test costs might show results which might be misleading if used for the purpose suggested. The accountants of the commission formed the same conclusion.

#### EXPORT TRADE.

In discussing the affairs of the Davies Company we have already dealt at considerable length with conditions governing export trade, both as regards that company and the Matthews-Blackwell Company. It is, therefore, perhaps only necessary as a matter of information to refer to certain conditions particularly affecting the Matthews-Blackwell business.

The agents of the Matthews-Blackwell Company in England were Mills & Sparrow, London; Dempster-Patterson, Glasgow; and J. N. Cavanagh, Dublin.

The purchases by the British War Office were made through Messrs. Mills & Sparrow. Prior to February 1, 1917, the prices were determined in negotiation with Messrs. Denny & Company, the purchasers of the British War Office, after the

company's products had actually arrived in England or were in transit on the ocean. After February 1, 1917, purchases were made for the War Office through Messrs. Mills & Sparrow in precisely the same manner as hereinbefore described in the case of the Davies Company. This company never enjoyed the advantage of a fixed minimum price as in the case of the Davies Company, but was always governed by market conditions prior to February 1, 1917. As in the case of the other company advantage was taken of the continually increasing demand for hog products in Great Britain, facilities for production in Canada being enlarged from time to time as occasion would permit.

This company entered the American market in the month of August, 1915, making a contract with a firm in Cincinnati for the purchase of sides, and in 1916 the company commenced to purchase live hogs on the Chicago market through the Western Packing Company. That company killed the hogs purchased by the Matthews-Blackwell Company and shipped the product to Canada, where it was prepared for export.

Detailed particulars of the export business of this company have already been given, and no further comment under this head seems necessary.

#### PERCENTAGE OF TRADING PROFITS TO CAPITAL INVESTED.

The relation which the trading profits of a company bears to the investment in its plant is an important consideration, and we have, therefore, prepared a comparative statement showing, by years, the amount of each company's investment in carrying on the business of packers, and in the operation of the retail stores; and showing the percentages of profits earned on such investment:—

- (a) Before deduction of bond interest and interest on borrowed money, and
- (b) After deduction of these interest payments.

#### WILLIAM DAVIES COMPANY, LIMITED.

	Fiscal Years Ending March 31.			
	1914.	1915.	1916.	1917.
Investment at the beginning of each year...	\$1,314,232 00	\$1,351,840 00	\$1,744,251 00	\$2,927,098 00
Profit before deduction of bond interest and interest on borrowed money...	268,269 60	767,880 54	1,635,374 19	2,022,020 89
Percentage to investment ..	20·41	56·80	93·76	69·08
Profit after deduction of bond interest and interest on borrowed money...	90,871 82	585,599 64	1,395,779 17	1,682,771 16
Percentage to investment ..	6·89	43·32	80·02	57·48

Profits earned for the period from April 1 to August 11, 1917, appear, before deduction of interest, to have been at the rate of approximately 46 per cent per annum on the investment, and 30 per cent per annum after deduction of interest. Being for a broken period, these rates may be varied with completion of operations for the full fiscal year.

#### MATTHEWS-BLACKWELL, LIMITED.

	Fiscal Years Ending October 31.			
	1913.	1914.	1915.	1916.
Investment at the beginning of each year...	\$2,107,447 48	\$2,108,904 84	\$1,984,285 15	\$2,129,882 27
Profit before deduction of bond interest and interest on borrowed money...	269,253 19	81,911 08	417,822 00	678,745 41
Percentage to investment ..	12·77	3·88	21·06	31·87
Profit after deduction of bond interest and interest on borrowed money, or loss...	136,957 56	61,119 69	279,097 12	535,984 47
Percentage to investment ..	6·49	2·89	14·06	25·16

Profits earned for the period from November 1, 1916, to August 6, 1917, appear, before deduction of interest, to have been at the rate of approximately 52 per cent per annum on the investment, and 45 per cent per annum after deduction of interest. Being for a broken period, these rates may be varied with completion of operations for the full fiscal year.

In comparing the above it should be noted that the fiscal year of the Davies Company terminates in March, while that of the Matthews-Blackwell Company expires in October.

### EXPLANATORY REMARKS REGARDING UNIT COSTS

Before dealing with figures of unit costs it seems desirable to draw attention to two important points which may not be fully appreciated by those not possessing a technical knowledge of the packing-house business:—

(1) That the export business of both the Davies Company and the Matthews-Blackwell Company, so far as hog products are concerned, has been practically all in the shape of what is known in the trade as "Wiltshire sides." A Wiltshire is one-half of a hog (less the head, tail, feet and backbone) which has been treated to a pickling process and is ready to be cured by smoking and converted into what is generally understood by the domestic consumer as bacon and ham.

This point is important when comparing the unit cost of products exported with the costs or selling values of any special cuts sold in the domestic market and in preventing erroneous conclusions being drawn from such comparisons.

As will be explained later it has been found impracticable to ascertain unit costs and profits of the different cuts and portions of live stock products, but we have given separately the average costs and profits per unit of each class as a whole. As for example, the costs and profits given for domestic hog products represent the average of all hog products sold in the domestic market, which consist principally of fresh pork, barrelled and pickled pork, smoked bacon and ham, etc., whilst the unit figures relating to export hog products represent almost entirely the costs and profits of Wiltshire sides.

(2) That hogs, cattle and other live stock are purchased by the packers at a value per pound of the live weight and that the only methods of ascertaining the cost of any special cut or portion of the product when prepared and ready for consumption are:—

(a) To assume that all products obtained from the animal have an equal cost per pound.

Such an assumption, while perhaps correct in theory, would in practice be misleading, inasmuch as the result would be that the choice cuts of the animal would show an excessive ratio of profit while other cuts, which were not in equal demand, might show a loss on sale. So far as can be learned, such a method of ascertaining cost has never been adopted by packers.

(b) To assume that the cost of all cuts and portions obtained from a live animal have a direct relation to the selling prices.

The ratio between the selling prices of the different cuts is after all determined by the public demand therefor, and as a consequence when dealing with the question of costs it must be accepted that the cuts or parts of the product which realize the higher prices in the market have a greater cost than those which realize lower prices.

As an illustration of the weights and values of products obtained from a hog and of the relation the retail price of bacon, hams and other pork products bears to the cost of the live animal, the accountants of the commission prepared two statements

from the records of the Davies Company, the first showing the products obtained from a live hog weighing 197 pounds which was killed in December, 1914, and the second showing the product obtained from a live hog weighing 184 pounds which was killed in 1917.

These statements are as follows:—

STATEMENT as to costs of products from hog costing about 8 cents per pound and weighing 197 pounds. (December, 1914.)

Percentage of Live Weight.	Pounds.			
100	197	Live weight delivered at packing-house after allowing for shrinkage in weight with handling, delivery, etc., 197 pounds.		
		Cost at 7·97 cents per pound.....		\$15·70
		Yardage, feeding and killing costs.....		.42
22·88	45·08	Loss in weight with killing was 45·08 pounds.		
77·12	151·92	And weight left in dead, products 151·92 pounds costing whereafter,		\$16·1200
		Killing offal weighing 8·10 pounds and worth.....		.2521c
		Condemned products " 1·90 " " " .....		.0426
		Lard " 11·92 " " " .....		1·0731
		Cutting offal " 8·50 " " " .....		.5384
15·45	30·42	Total.....	30·42 lbs worth .....	1·9062
61·67	121·50	was taken off, and the balances remaining for conversion into hams, untrimmed backs, bellies and shoulders weighed 121·50 pounds at a cost to the packer of.....		\$14·2138
		With cutting of above for use in the domestic trade a further reduction in weight took place of		
4·32	8·52	8·52 pounds, valued at.....		.5384
57·35	112·98	Leaving 112·98 pounds to be converted which had cost the packer.....		\$13·6754
		and to get back actual cost only, the packer had to receive from		
14·71	28·98	Hams, in uncured state, about 12c. per lb. or.....		\$3·5184
16·03	31·58	Untrimmed backs " 12 $\frac{1}{2}$ " " .....		4·0015
11·57	22·79	Bellies " 13 " " .....		3·0035
15·04	29·63	Rolls " 10 $\frac{1}{2}$ " " .....		3·1520
57·35	112·98	Total.....		\$13·6754

Before sale these products had then to be cured and smoked—Costs were:

Hams:—

Cost of uncured meat, as per above statement, 28.98 pounds at 12 cents.....	\$3.5184
Costs of pickling were..... while the gain in weight with pickling was 1.14 pounds.	.2879

Weight of pickled hams then was 30.12 pounds and cost thereof.....	\$3.8063
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Hams then required to be smoked:—

Cost of smoking was..... while the weight lost in smoking was 2.67 pounds and the packer was left with 27.45 pounds of smoked hams, which had cost him, sold and delivered, or 15.06 cents per pound.	.3283
	4.1346

The retail price of smoked hams in December, 1914, was:—

Whole.....	20 cents per pound.
Half.....	20 " "
Sliced .....	25 " "

## Backs (untrimmed)—

Cost of uncurved meat, as per above statement.....	31·58 pounds at 12½ cents =	\$4·0015
Costs of pickling were.....		·3126
While the gain in weight with pickling was.....	1·24 pounds.....	
Weight of pickled backs then was.....	32·82 pounds and the cost thereof.....	
		\$4·3131
The pickled backs then had to be trimmed and the fat removed, before smoking.		
This reduced the weight.....	13·75 pounds, and the trimmings were worth.....	
What remained for smoking weighed.....	19·07 pounds, and had cost...	\$3·4479
With smoking, the loss in weight was.....	1·56 pounds.....	
While the cost of smoking, with selling, shipping and delivery were.....		·2079
The packer being left with .....	17·51 pounds of smoked, trimmed backs, which cost him, sold and delivered.	
Or 20·87 cents per pound.....		\$3·6558

The retail price of smoked, trimmed backs was, in December, 1914 :—

Whole .....	24 cents per pound.
Half.....	25 cents "
Sliced.....	27 cents "

## Bellies—

Cost of uncurved meat, as per above statement ...	22·79 pounds at 13 cents =	\$3·0035
Costs of pickling were.....		·2256
While the gain in weight with pickling was.....	·89 pounds.....	
Weight of pickled bellies was.....	23·68 pounds and cost thereof	\$3·2291
Before smoking the bellies had to be trimmed, and fat removed—		
This reduced the weight by.....	·95 pounds the trimmings and fat being worth... ..	·0668
What remained for smoking weighed.....	22·73 pounds and had cost ...	\$3·1623
With smoking the loss in weight was.....	2·06 pounds.	
And the costs of smoking, with selling, delivery and shipping expenses, were.....		·2478
The Packer being left with .....	20·67 pounds.	
of smoked bellies (or side bacon) which had cost him, sold and delivered .....		\$3·4101
(or 16·49 cts. per lb.)		

In December, 1914, the retail prices of smoked bellies (or side bacon) were :—

Whole .....	20 cents per pound.
Half.....	21 cents per pound.
Sliced .....	23 cents per pound.

## Rolls—

Cost of uncured meat, as per above statement.....	29·63 pounds at 10½ cents = \$	3·1520
Costs of pickling were.....		·2933
While the gain in weight with pickling was.....	1·16 pounds.	
Weight of pickled rolls was.....	30·79 pounds and cost thereof.\$	3·4453
Before smoking rolls had to be trimmed and fat removed.		
This reduced weight by.....	2·91 pounds fat and trimmings removed being worth .....	·2037
What remained for smoking weighed.....	27·88 pounds and had cost....\$	3·2416
With smoking the loss in weight was.....	2·62 pounds.	
While the cost of smoking and selling, shipping and delivery expenses were.....		·3038
The packer being left with.....	25·26 pounds of smoked rolls at a cost sold and delivered to himself of....\$	3·5454
or 14·04 cents per pound.		

In December, 1914, the retail prices of rolls were :—

Whole.....	15 cents per pound.
Half.....	16 cents per pound.
Sliced.....	18 cents per pound.

STATEMENT as to Costs of Products from Hogs Costing 18 cents per Pound, Live Weight.

Example—Hog of 184 pounds weight.

Percentage of Live Weight.	Pounds.			
100	184	184 pounds live weight at 18 cents per pound.....	\$33.12	
		Shrinkage and handling, 71 cents per 100 pounds .....	1.32	
		Feeding, yarding, killing and cutting costs.....	0.60	
23·51	43·26	Loss in weight by shrinkage, in handling and in killing.		
76·49	140·74	Cost of dead meat—140·74 pounds .....	\$35.04	
		Deduct: Value of products obtained with killing—		
		Killing offal..... 4·92 pounds.		
		Cutting offal..... 6·75 "		
		Lard, grease, fertilizer, etc ..... 17·67 "		
15·93	29·34	29·34 pounds—value of same.	3.89	
60·56	·111·40	Cost of hams, back, bellies and shoulders.....		\$31.15
		Weight of hams, back, bellies and shoulders, 111·40 pounds. (Those compose two Wiltshire sides.)		
		In conversion of Wiltshire sides into hams, bacon, backs and rolls, the trimmings, spareribs and bones which are removed weigh 5·88 pounds, and are worth .....	0·64	
3·21	5·88			
57·35	105·52	Leaving a net cost for 105·52 pounds of ham, bacon, backs and bellies, in an uncured state, of .....		\$30.51
		And to get back actual cost only the packer had to receive from—		
14·71	27·07	of hams, about 29 cents per pound.....	\$7.71	
16·03	29·50	" 31 "	8.98	
11·57	21·28	" 31 "	6.48	
15·04	27·67	" 27 "	7.34	
57·35	105·52	Total, 105·52 pounds, from which packer must recover.....		\$30.51

Hams, untrimmed backs, bellies and rolls have then to be cured, when the following costs are incurred:—

Hams.—

Cost of uncured meat, as per above statement.....	27·07 pounds at 29 cents=	\$ 7.71
Pickling charges in curing.....	.....	.1787
Gain in weight in curing.....	1·09	
Total.....	28·16 pounds at cost of.....	\$ 7.887
In smoking a loss in weight of 2·50 pounds is sustained.....	2·50	
While cost of smoking and thereafter selling, delivery and shipping are.....	.....	\$ .5660
	25·66	

This means that 25·66 pounds of smoked hams costs  
the Packer ..... \$ 8.4547  
Equal to 32·95 cents per pound.  
These hams are now sold wholesale for..... 32 cents per pound.  
Packer sustaining a loss of about .95 cents per pound.  
The retail stores sell the ham at..... 35 cents to 38 cents per pound.

MEMO.—The above condition is attributable to the fact that for the last seven or eight months there has been a surplus supply of hams on the market, forcing the packers to dispose of them without profit, if not at a loss, in order to encourage consumption. At the same time the margin obtained by the retailer is not sufficient to cover his costs of distribution except on maximum price which gives him a margin of 6 cents a pound to cover same.

Back Bacon:—

Cost of untrimmed backs, as per above statement..	29·50 pounds at 31 cents=	\$8.98
Pickling charges in curing.....	.....	.1947
Gain in weight in curing.....	1·19 pounds.	
Total.....	30·69 pounds at cost of.....	\$9.1747
Before smoking, rind and fat must be removed— They amount to.....	12·85 pounds of value to the packer of.....	2.1845
Leaving pickled trimmed backs of.....	17·84 pounds, costing .....	\$6.9902
In smoking, which then follows, there is a shrinkage of.....	1·46 pounds,	
While the costs of smoking, selling, shipping and delivery are.....	.....	.3585
And the packer then has..... of smoked and trimmed back bacon which has cost him .....	16·38 pounds	
or 44·86 cents per pound.	.....	\$7 3487
The cost of bacon, as above, to the packer, is.....	44·86 cents.	
Wholesale profit obtained has been.....	43 "	
Wholesale selling price must be.....	45·29 "	
Retailer obtains margin of 20 per cent of selling price, equal to 25 per cent on cost, or.....	9·06 "	
Leaving retail price of Trimmed back bacon at.....	54·35 "	

## Bellies—

Cost of uncured meat, as per above statement.....	21.28 pounds at 31 cents=	\$6.48
Add—		
Pickling charges in curing.....		.1404
Gain in weight in curing.....	.85	
Total.....	22.13 pounds at cost of.....	\$6.6204
Before smoking, bellies have to be squared and trimmed and fat removed, when a loss in weight is sustained of.....	.89 pounds worth.....	.1112
Leaving to be smoked.....	21.24 pounds costing.....	\$6.5092
In smoking, which then follows, there is a shrinkage in weight of.....	1.92 pounds,	
While the costs of smoking, selling, shipping and delivery are.....		.4269
The packer then has.....	19.32 pounds	
Of smoked breakfast bacon (bellies or sides) which have cost him.....		\$6.9361
or 35.9 cents per pound.		

## Retail costs—

Cost as above to packer.....	35.9 cents per pound.
Packer's profit.....	2.6 " "
Retailer's margin on sliced bellies.....	7.5 " "
Retail selling price .....	45.0 " "

Retailer's margin of 7½ cents per pound is 16½ per cent of selling price, or insufficient to cover present costs of distribution which average 20 per cent to 25 per cent of sales.

## Rolls or boneless shoulders:—

Cost of uncured meat, as per above statement.....	27.67 pounds at 27 cents=	\$7.34
Add—		
Pickling charges in curing.....		.1826
Gain in weight.....	1.11	
Total .....	28.78 pounds, costing.....	\$7.5226
Before smoking, rolls have to be squared and trimmed and fat removed, when a loss in weight is sustained of.....	2.72 pounds, worth.....	.3400
Leaving to be smoked.....	26.06 pounds, worth .....	\$7.1826
In smoking which then follows, there is a shrinkage in weight of.....	2.45 pounds	
While the costs of smoking, selling, shipping and delivery are .....		.5238
The packer then has.....	23.61 pounds	
Of smoked, rolled shoulders, which have cost him.....		\$7.7064
or 32.64 cents per pound.		

*Retail prices.*—Retail prices of rolls and boneless shoulders have been 36 cents per pound on above costs, retailer obtaining about 10 per cent margin over wholesale costs and packer selling without profit.

These statements show how necessary it is that cost from the packers' standpoint shall be determined by the amount which the packer must recover from each class of product, and also that the exact cost of any special cut or class of product is not ascertainable, but costs and profits must be measured against the whole.

### UNIT COSTS.

Under the accounting system of the Davies Company the business is separated into various departments with the primary object of enabling the management to judge as to the capacity and ability of their department managers. Each department is charged with the operating costs specifically applicable to it, with an amount of interest calculated upon the stock carried and with a proportion of general administration and head office expenses. The apportionment of this latter expense is made on a more or less arbitrary basis, but it does not appear that any attempt has been made to understate the profits of any one department at the expense of others, and it is felt that the allocation of expenses as made by the company can for all practical purposes be accepted.

The system of accounting of the Matthews-Blackwell Company on the other hand does not permit of the ascertainment of the costs of the different products with any degree of accuracy, but the following information with regard to the cost of live hogs purchased and the average prices realized from the sale of products is of interest:-

**Live Hog Costs—**

**Year ending—**

November 3, 1913 . . . . .		\$10 05
" 2, 1914 . . . . .		9 82

October 30, 1915 . . . . .		9 47
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**Quarter ending—**

February 7, 1916 . . . . .		10 17
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May 1, 1916 . . . . .		12 33
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August 7, 1916 . . . . .		12 16
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October 30, 1916 . . . . .		13 03
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February 5, 1917 . . . . .		13 79
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April 30, 1917 . . . . .		17 91
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	1913.	1914.	1915.	1916.
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**Average Selling Prices—**

	Cents.	Cents.	Cents.	Cents.
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Hog products, domestic . . . . .	per lb.	15·90	15·56	15·00
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Beef products export . . . . .	"	9·60	11·72	12·46
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Small stock . . . . .	"	12·50	14·79	15·68
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Butter . . . . .	"	26·98	26·65	29·63
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Cheese . . . . .	"	14·69	14·98	16·76
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Eggs . . . . .	per doz.	26·74	26·77	25·01
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Export hog products . . . . .	per lb.	14·79	18·00	14·39
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	15·94			
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Since there was a continuous rise in market prices during the periods under review no fair comparison can be made between the average prices received by the Davies Company and those above shown for the reason that the fiscal years terminate one in March and the other in October.

The following statements show the unit costs of and unit profits on the products manufactured by the Davies Company for the four years ending March 31, 1917:-

	1914.	1915.	1916.	1917.
<b>Canadian Hog Products—</b>				
Export and Domestic Business Combined prior to 1916—				
Selling price per pound . . . . .	13·75	12·53	...	—
Cost per pound . . . . .	13·46	11·85	...	—
	0·29	0·68	...	—
Selling and administrative expense . . . . .	0·51	0·39	...	—
	0·22	0·29	...	—
Net profit or loss per pound . . . . .	0·23	0·27	...	—
Domestic Business—				
Selling price per pound . . . . .	...	...	14·50	17·44
Cost per pound . . . . .	...	...	12·70	16·11
	...	...	1·80	1·33
Selling and administrative expense, less sundry revenue . . . . .	...	...	1·13	0·90
	0·67	0·43		
Net profit per pound . . . . .	0·62	0·37		
" after charging employees' bonus . . . . .	0·62	0·37		

**MEMO.—**The increase of administration expenses in these years appears to be due principally to the higher costs of delivery to the retail stores and other purchasers.

	1914. Cents.	1915. Cents.	1916. Cents.	1917. Cents.
<b>Export Business—</b>				
Selling price per pound.. . . . .	....	....	16·61	20·17
Cost per pound.. . . . .	....	....	15·15	18·90
			1·46	1·27
Selling and administrative expense, less sundry revenue.. . . . .	....	....	0·18	0·30
Net profits per pound.. . . . .	....	....	1·28	0·97
" after charging employees' bonus ..	....	....	1·19	0·90
 <b>American Hog Products—</b>				
Selling price per pound.. . . . .	....	....	15·71	19·38
Cost per pound.. . . . .	....	....	12·71	17·28
			3·00	2·10
Selling and administrative expense, less sundry revenue.. . . . .	....	....	0·46	0·40
Net profit per pound.. . . . .	....	....	2·54	1·70
" after charging employees' bonus ..	....	....	2·37	1·58

MEMO.—The comparatively small expenses of administration charged to export sales, as compared with the domestic sales is due to the fact that the latter include freight and delivery expenses, whilst the freight war risk and marine insurance on export sales are treated as deductions from the price obtained for the product.

	1914. Cents.	1915. Cents.	1916. Cents.	1917. Cents.
<b>Cattle—</b>				
<b>Export and Domestic Business Combined prior to 1916—</b>				
Selling price per pound.. . . . .	12·12	14·38	....	—
Cost per pound.. . . . .	11·58	13·58	....	—
	0·54	0·80	....	—
Selling and administrative expense.. . . . .	0·48	0·38	....	—
Net profit per pound.. . . . .	0·06	0·42	....	—
" after charging employees' bonus ..	0·06	0·39	....	—
 <b>Domestic Business—</b>				
Selling price per pound.. . . . .	....	....	13·76	13·66
Cost per pound.. . . . .	....	....	13·55	13·35
			0·21	0·31
Selling and administrative expenses, less sundry revenue.. . . . .	....	....	0·48	0·43
Net loss per pound.. . . . .	....	....	0·27	0·12
" after charging employees' bonus ..	....	....	0·29	0·13
 <b>Export Business—</b>				
Selling price per pound.. . . . .	....	....	11·10	12·12
Cost per pound.. . . . .	....	....	10·31	11·09
			0·79	1·03
Selling and administrative expenses, less sundry revenue.. . . . .	....	....	0·45	0·02
Net profit per pound.. . . . .	....	....	0·34	1·01
" after charging employees' bonus ..	....	....	0·32	0·94
 <b>Small Stock—</b>				
Selling price per pound.. . . . .	....	14·62	15·30	18·61
Cost per pound.. . . . .	....	13·86	14·73	17·28
		0·76	0·57	1·33
Selling and administrative expenses.. . . . .	....	0·36	0·46	0·60
Net profit per pound.. . . . .	....	0·40	0·11	0·73
" after charging employees' bonus ..	....	0·37	0·10	0·68

	1914.	1915.	1916.	1917.
	Cents.	Cents.	Cents.	Cents.
<b>Produce—</b>				
<b>Butter—</b>				
Selling price, per pound.. . . . .	26·47	26·63	28·95	34·31
Cost per pound.. . . . .	25·56	24·91	27·64	31·97
	0·91	1·72	1·31	2·34
Selling and administration expenses.. . . . .	1·06	0·90	1·09	1·32
Net profit or loss per pound.. . . . .	0·15	0·82	0·22	1·02
" after charging employees' bonus ..	0·15	0·76	0·20	0·95
<b>Eggs—</b>				
Selling price per dozen.. . . . .	26·47	25·91	29·26	31·37
Cost per dozen.. . . . .	22·68	23·77	26·94	29·03
	3·79	2·14	2·32	2·34
Selling and administration expenses.. . . . .	1·93	1·86	1·45	1·54
Net profit per dozen.. . . . .	1·86	0·28	0·87	0·80
" after charging employees' bonus ..	1·81	0·26	0·81	0·75
<b>Cheese—</b>				
Selling price per pound.. . . . .	14·39	15·63	16·39	20·85
Cost per pound.. . . . .	13·53	13·82	15·26	18·20
	0·86	1·81	1·13	2·65
Selling and administration expenses.. . . . .	0·81	0·98	0·61	0·93
Net profit per pound.. . . . .	0·05	0·83	0·52	1·72
" after charging employees' bonus ..	0·05	0·77	0·48	1·60
<b>Poultry—</b>				
Selling price per pound.. . . . .	18·98	16·71	19·08	23·17
Cost per pound.. . . . .	17·30	17·00	17·49	21·87
	1·68	0·29	1·59	1·30
Selling and administration expenses.. . . . .	1·29	1·11	0·74	1·56
Net profit or loss per pound.. . . . .	0·38	1·40	0·85	0·26
" after charging employees' bonus ..	0·37	1·50	0·79	0·28
<b>Export Eggs—</b>				
Selling price per dozen.. . . . .	.....	.....	.....	40·07
Cost per dozen.. . . . .	.....	.....	.....	32·40
	.....	.....	.....	7·67
Selling and administration expenses.. . . . .	.....	.....	.....	7·20
Net profit per dozen.. . . . .	.....	.....	.....	0·47
" after charging employees' bonus ..	.....	.....	.....	0·45
<b>Export Butter—</b>				
Selling price per pound.. . . . .	.....	.....	.....	33·37
Cost per pound.. . . . .	.....	.....	.....	27·13
	.....	.....	.....	6·24
Selling and administration expenses.. . . . .	.....	.....	.....	4·99
Net profit per pound.. . . . .	.....	.....	.....	1·25
" after charging employees' bonus ..	.....	.....	.....	1·16
<b>American Eggs—</b>				
Selling price per dozen.. . . . .	22·46	24·57	27·66	30·99
Cost price per dozen.. . . . .	19·82	24·31	26·50	29·68
	2·64	0·26	1·16	1·31
Selling and administration expenses.. . . . .	.....	0·60	0·60	0·51
Net profit or loss per dozen.. . . . .	2·64	0·34	0·56	0·80
" after charging employees' bonus ..	2·58	0·36	0·52	0·75

American Butter—	1914. Cents.	1915. Cents.	1916. Cents.	1917. Cents.
Selling price per pound.. . . . .	....	....	27·65	33·24
Cost per pound.. . . . .	....	....	25·83	29·80
			1·82	3·44
Selling and administration expenses.. . . . .	....	....	0·57	0·98
			1·25	2·46
Net profit per pound.. . . . .	....	....	1·16	2·29
“ after charging employees' bonus ..				

### STANDARDIZED SYSTEM OF ACCOUNTING.

The Order in Council asks for a recommendation as to the standardized system of cost accounting applicable to the business of cold storage. Perusal of this report will have already indicated the practical impossibility of compliance with this instruction. Even the two companies which are dealt with are so differently situated that it would not be reasonable to require each to keep its accounts in the same form, and there are, to our knowledge, others again differently situated. We cannot do better than to recommend that it be left to the companies engaged in this line of business to keep their accounts in a manner which will permit them to furnish such information as the officials of the Government may require for statistical purposes and it may be practicable to obtain.

### CONCLUSION.

In closing this report it seems advisable that attention should be drawn in concise form to certain salient features which have already been elaborated, and these are:—

(a) That the profits made by the companies during the war period were exceptionally high, and yielded an extraordinary return upon the capital invested. In the year 1916 the trading profits of the Davies Company were equal to 80 per cent on its investment in packing-house plants and retail stores. War taxes, however, are payable out of these profits.

(b) That these exceptionally high profits were due to an extraordinary expansion in the volume of business done, as well as to an increase in the percentage of profits earned upon sales.

(c) That the increase in the volume of business done was almost entirely attributable to export sales, principally to the British War Office. These sales yielded a high percentage of profit.

(d) That in respect of its export business with the British War Office the Davies Company for a considerable period of time enjoyed the advantage of a fixed minimum selling price, a concession granted, so far as we can learn, to no other packer.

It was suggested during the inquiry that this concession might have been obtained by Sir Joseph Flavelle, whose occupancy of a public position would facilitate his so doing. The evidence of Sir Joseph is that he took no part in the negotiation which resulted in the granting of this concession, and the cable correspondence indicates that it resulted from a business negotiation influenced only by business considerations.

(e) That the present high price of hog products in Canada is primarily due to the high prices paid by packers for live hogs in Canada; this in turn is the result of aggressive competition between the packers to fill the insistent demand for hog products created by the war.

(f) That upon the sale of hog products to retail stores and distributors in Canada the Davies Company in 1916 made a profit of three-fifths of a cent per pound, and in 1917 a profit of two-fifths of a cent per pound. The actual profits per pound of the Matthews-Blackwell Company are not ascertainable, but having regard to its earnings they could not have exceeded these figures.

(g) That out of every dollar paid by the public in the purchase of hog products in the Davies Company's retail stores, 19 cents to 21 cents represents the cost of operating such stores and the expense of delivery to the customer.

(h) That in considering the present price of bacon in Canada it must be remembered that the packer has to dispose of the whole animal. During the period of the war it would seem that there has been a larger domestic demand for the choicer cuts, such as bacon. As the demand for bacon has increased the demand for the other parts of the animal has lessened in proportion, thus throwing upon the parts from which bacon is manufactured an unusual proportion of the cost of the whole. A careful study of the statements already given is necessary to a proper appreciation of this fact.

While during the whole of the period in question the main object of each company appears to have been to do as large an amount of business as possible, and to obtain for itself the profits upon it, no effort would appear to have been made by either at any time to come together with a view to keeping down the price of live hogs in Canada.

In conclusion, we desire to record the fact that both companies did all in their power to facilitate our work and that of our accountants. We had the benefit in consultation of the experienced advice of Mr. T. J. O'Connor, a former managing partner of the firm of Armour & Company, and desire to acknowledge our sincere appreciation of his services and of the manner in which they were given. We cannot emphasize too strongly the importance of the assistance rendered by Mr. Bain, K.C., and Mr. Gordon, who acted without remuneration and contributed to the success of the investigation in a very marked degree.

Herewith is submitted a copy of the evidence as taken, together with the exhibits as filed.

We have the honour to be, sir,

Your obedient servants,

GEO. F. HENDERSON,

A. B. BRODIE,

G. T. CLARKSON.













